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SIPDIS

STATE FOR SECRETARY AND S/I

SIPDIS, SENSITIVE

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SUBJECT: MESSAGE FOR THE SECRETARY: AGRIBUSINESS FUNDING
NEEDED IN FY06 SUPPLEMENTAL

¶1. (SBU) I appreciate all the work you and the Department have done in getting a strong supplemental request for assistance to Iraq. It was good news to see that OMB had agreed to include the funding for national capacity development.

¶2. (SBU) I believe we are in good shape, with one exception - funding for agribusiness development. We have talked a lot about the importance of agriculture development as an employment generator in Iraq. Many in Congress also have shared their sense of the importance of facilitating the development of this sector.

¶3. (SBU) Restoration of the agriculture sector is critical to stabilization in Iraq, both for employment and revenue generation. Agribusiness in particular needs to be a key focus of our activities. There is little Iraqi capacity to process, package, market and distribute agribusiness foods and services. The result is that Iraq ends up importing many processed goods that it could provide itself and loses the employment and revenue.

¶4. (SBU) We also need to focus the next government on subsidy reduction. We can expect a number of allies in this effort, but it will continue to be politically challenging. Success in reducing food subsidies will depend, in part, on increasing production and availability of processed goods in the domestic market.

¶5. (SBU) I understand the OMB logic of preferring to put these types of programs in regular appropriations bills. However, we did not get the funding for which we asked in the regular FY06 appropriation, and FY 07 funding is unlikely to be available for another year. After the first OMB passback, we already cut our supplemental request in half.

¶6. (SBU) I am concerned about missing this opportunity. I believe that revitalizing the private agriculture sector and generating new employment can play a key role in our efforts to undermine the counterinsurgency.

¶7. (SBU) I recommend appealing this one item with OMB. If you like, I would also be willing to call Josh Bolton to reinforce the point. Thanks, Zal

KHALILZAD